



Annual Report to Stockholders

1953

PEPSI-COLA COMPANY

NEW YORK CITY



Kinston, N. C.

Garden City, N. Y.



TYPICAL
NEW PLANTS
inside
U. S.



Ripley, Ohio

Winston-Salem, N. C.



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ANNUAL REPORT 1953

PEPSI-COLA COMPANY — 3 WEST 57TH STREET, NEW YORK CITY

Board of Directors

JAMES W. CARKNER, <i>Chairman</i>	HARRY E. GOULD
HERBERT L. BARNET	MORTIMER HAYS
JAMES G. BLAINE	CHRISTOPHER E. HOLZWORTH
SHELDON R. COONS	ADMIRAL EDWARD O. McDONNELL
JAMES FELT	DR. LOUIS A. REZZONICO
WILLIAM B. FORSYTHE	ALFRED N. STEELE

Officers

ALFRED N. STEELE, *President*

WILLIAM B. FORSYTHE <i>First Vice-President</i>	DONALD M. KENDALL <i>Vice-President</i> National Accounts and Fountain Sales Department
HERBERT L. BARNET <i>Executive Vice-President</i>	MILWARD W. MARTIN <i>Vice-President and Secretary</i> Law Department
RICHARD H. BURGESS <i>Vice-President</i> Domestic Sales	HENRY E. MCGOVERN <i>Vice-President</i> Equipment Department
D. MITCHELL COX <i>Vice-President</i> Sales Promotion	CLIFFORD A. RIDDLE <i>Vice-President</i> Bottle Sales Division
THOMAS ELMEZZI <i>Vice-President</i> Manufacturing	JAMES B. SOMERALL <i>Vice-President</i> Bottle Sales Division
STEPHEN L. GALVIN <i>Vice-President</i> Director of Research	A. ALLEN THOMSON <i>Vice-President</i> Sugar Division
STEPHEN J. GULLO <i>Vice-President</i> Product Control Department	LOUIS E. NUFER <i>Treasurer</i>

WILLIAM B. FORSYTHE, *Chairman of the Board of Directors and President of Pepsi-Cola International, Ltd.*
EMMETT R. O'CONNELL, *President of Metropolitan Bottling Company, Inc.*
FRANK W. MCINTOSH, *President of Pepsi-Cola Company of Canada, Limited.*

Transfer Agents

THE MARINE MIDLAND TRUST COMPANY OF NEW YORK
THE FIRST NATIONAL BANK OF JERSEY CITY
HARRIS TRUST AND SAVINGS BANK (CHICAGO, ILLINOIS)

Registrars

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK
THE FIRST NATIONAL BANK OF CHICAGO (CHICAGO, ILLINOIS)

HIGHLIGHTS OF 1953

as compared with 1952, 1951, and 1950

FINANCIAL RESULTS	1953	1952	1951	1950
Gross Profit on Sales	\$45,419,752	\$35,002,415	\$30,216,383	\$23,765,879
Income Before Deducting United States and Foreign Income Taxes	11,384,412	7,834,126	4,192,890	2,544,610
Net Income	5,476,882	3,880,362	2,632,181	1,271,919
Earnings Per Share	95 1/8¢	67 1/2¢	45 3/4¢	22¢
Dividends	50¢	35¢	—	—

FINANCIAL POSITION	1953	1952	1951	1950
Current Assets	\$29,850,407	\$23,459,670	\$18,538,797	\$17,248,807
Current Liabilities	<u>11,854,418</u>	<u>7,048,898</u>	<u>4,830,536</u>	<u>3,784,171</u>
Working Capital	\$17,995,989	\$16,410,772	\$13,708,261	\$13,464,636
Fixed Assets—Net	14,758,730	13,980,506	15,044,434	10,939,904
Other Assets	<u>3,963,617</u>	<u>3,720,446</u>	<u>3,374,015</u>	<u>3,171,161</u>
Total	\$36,718,336	\$34,111,724	\$32,126,710	\$27,575,701
Long Term Debt (Including Note Payable to Insurance Company) and Customers' Deposits	<u>5,111,280</u>	<u>5,109,798</u>	<u>5,309,341</u>	<u>5,221,898</u>
Stockholders' Equity	\$31,607,056	\$29,001,926	\$26,817,369	\$22,353,803

TO the Stockholders, Bottlers and Employees of Pepsi-Cola Company: On behalf of the Board of Directors, I submit this Report of the Company's operations for the year ended December 31, 1953.

FINANCIAL REVIEW

The Company has for the fourth successive year increased its sales, which are now running at the highest rate in its history.

Earnings

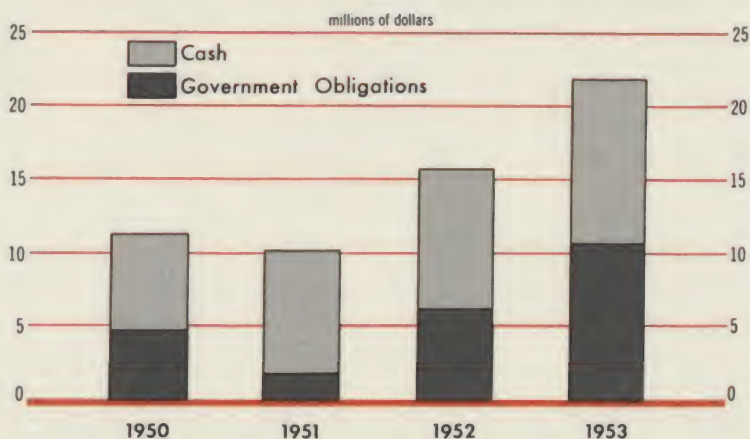
Earnings *before* taxes were \$11,384,412 in 1953 compared with \$7,834,126 in 1952, an increase of 45 per cent over the preceding year and of 347 per cent over 1950. Federal and foreign income taxes on 1953 earnings were also substantially larger, amounting to \$5,907,530 in 1953 compared with \$3,953,764 in 1952.

Earnings *after* taxes in 1953 were \$5,476,882, compared with \$3,880,362 in 1952.

Earnings per share on the 5,743,505 shares of capital stock outstanding were 95½ cents in 1953, compared with 67½ cents in 1952.

We again remind stockholders that your Company's earnings

CASH AND GOVERNMENT OBLIGATIONS



are now exclusively derived from the manufacture and sale of our soft drinks, except for interest income and a minor sum realized from the sale of liquid sugar from our East River refinery to industrial users. As pointed out in previous reports, your Management divested the Company of its Cuban sugar subsidiary and its Bottle Crown manufacturing facilities in 1950.

Dividends

The Board of Directors declared two dividends during 1953, totaling 50 cents a share, compared with dividends of 25 cents and 10 cents extra, totaling 35 cents a share, in 1952. A dividend of 25 cents a share was paid on July 24, 1953. Another dividend of 25 cents a share, declared on November 23, 1953, was paid on January 2, 1954. The dividends declared in 1953 amounted to \$2,871,752.

Working Capital

Working capital has increased to \$17,995,989 as at the 1953 year-end from \$16,410,772 at the end of the preceding year, and is at the highest point in the Company's history. Cash and government securities amounted to \$21,923,242 at December 31, 1953, as compared with \$15,783,465 at December 31, 1952.

During the year substantial cash expenditures were required for plant construction, increase of bottling facilities, and acquisition of glass, cases, automotive equipment, coolers, vending machines and other tools of the trade. Expenditures for these purposes amounted to \$5,422,000, making a total of \$22,817,000 during the last four calendar years.

Our Note Payable to an insurance company was further reduced and at year end amounted to \$3,331,000.

Stockholders' equity has risen to \$31,607,056 in 1953, from \$29,001,926 in 1952, a new high (see chart, page 9).

Sales

The reported case sales in the United States attained a new peak in 1953, representing an increase of 54 per cent since 1950 (see chart, page 11).

According to trade estimates, where available, the Company's domestic annual rate of sales growth continues markedly to exceed that of the soft drink industry as a whole (see chart, page 10).

Since September 1950, reported case sales of Pepsi-Cola have increased each month over the corresponding month of the preceding year, and I am pleased to report that this trend is continuing in 1954.

— DEVELOPMENT WITHIN THE UNITED STATES —

Broadening public acceptance of Pepsi-Cola is evidenced by four years of steady increases in sales. Pepsi-Cola Company, already the second largest manufacturer of soft drinks in the world, is also the fastest growing.

More new Bottling Plants have been opened by Pepsi-Cola Bottlers in the past two years than by bottlers of any other beverage. Productive capacity of Pepsi-Cola bottling operations in the United States has increased by 80 million cases since 1950. This continued expansion of bottling facilities and greater distribution of Pepsi-Cola is fostered by the mutual confidence and cooperation existing between the Company and its franchised Bottlers.

Bottler Expansion

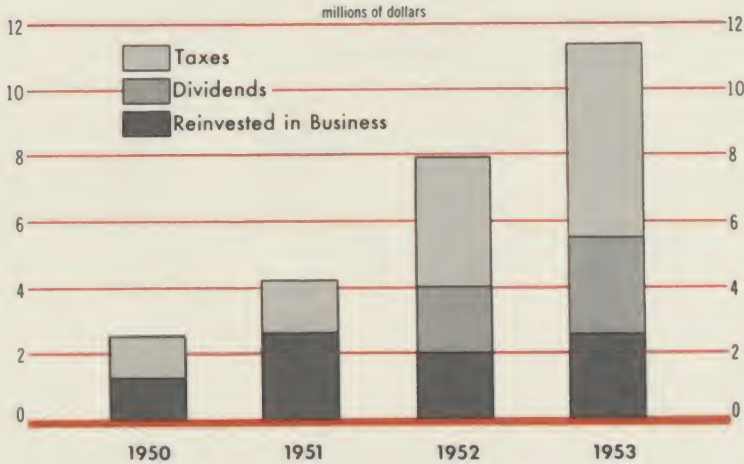
Twenty-four new Pepsi-Cola Bottling Plants were opened in the United States in 1953. Major additions were accomplished in 31 Bottling operations, and Bottling lines were replaced or rehabilitated in 55 other Bottling operations during the year.

We estimate that franchised Bottlers' investment in these new facilities during 1953 amounted to more than seven million dollars, a very significant index of Bottlers' confidence in your Company's management and policies.

In our trade, the important indicator of public acceptance is annual consumption per capita—the number of bottles of soft drinks consumed in a year on the average by each individual in a territory. The number of our Bottlers who now sell Pepsi-Cola in excess of 100 bottles per capita continues to grow.

In 1953, 33 of our franchised Bottlers passed the million-case

DIVISION OF PROFIT



sales level. This growth is not isolated. Twenty-five states within the United States have had an increase in Pepsi-Cola sales ranging from 50 to 91 per cent since 1950.

Plans already announced call for the addition of 32 new Pepsi-Cola bottling plants in 1954.

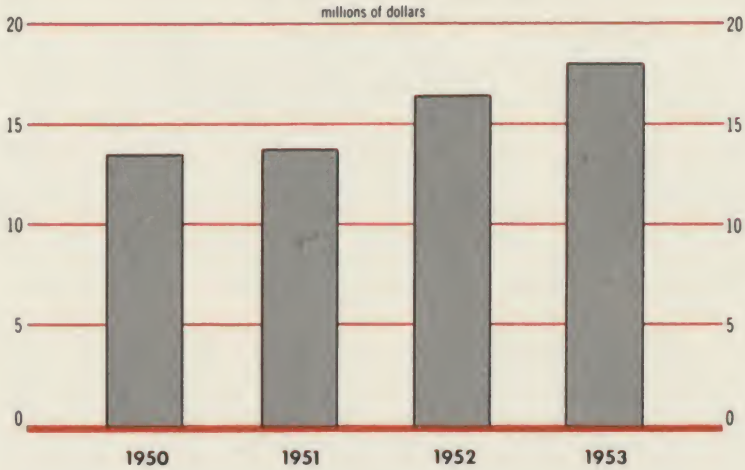
Regional Offices

We opened an additional Regional Office in Denver, Colorado in May 1953, bringing the total to eight. This will make the Company's services more readily available to Bottlers in the rapidly growing area of the Mountain States.

Our Regional Office Organization, initiated in 1950, represents your Company with Bottlers on the local level. Our Regional Managers and their Field Personnel are skilled specialists who work directly with our Bottlers on all problems related to their business.

Representatives of Regional Offices undertake training programs with the Bottler's own sales force, measure distribution and develop local advertising and promotional programs. These regional operations provide a training school for the development of Plant Managers and future Company executives.

WORKING CAPITAL



Company-Owned Bottling Plants

At the close of 1953, the Company owned and operated 18 Bottling Plants. This division of the Company attained the highest sales in its history.

At year end, Company-owned plants were located in: New York City (2), Philadelphia (2), Boston, Pittsburgh, Milwaukee, Houston, Memphis, Jersey City, Nashville, Springfield, Mass., Phoenix, New Brunswick, Monroe, La., Alexandria, Va., Teterboro, N. J. and Waco, Texas.

In March, 1954, the Company franchised a new Bottler for the Hartford and Springfield areas, selling its Springfield operation to him. This follows our announced policy of selling Company-owned plants on an appropriate basis to independent operators whose business record, experience and status in their home communities indicate their ability to operate successfully and to increase the volume and momentum of Pepsi-Cola sales in franchised areas.

In order to meet increasing demand, our second Philadelphia plant, opened only three years ago, is now being enlarged 50 per cent.

We are constructing a new plant in Milwaukee. This plant,

expected to open in June, 1954, will have more than twice its present capacity, and will be equipped with the most modern bottling facilities.

Plans are also under way to double the size of our plant in New Brunswick, N. J.

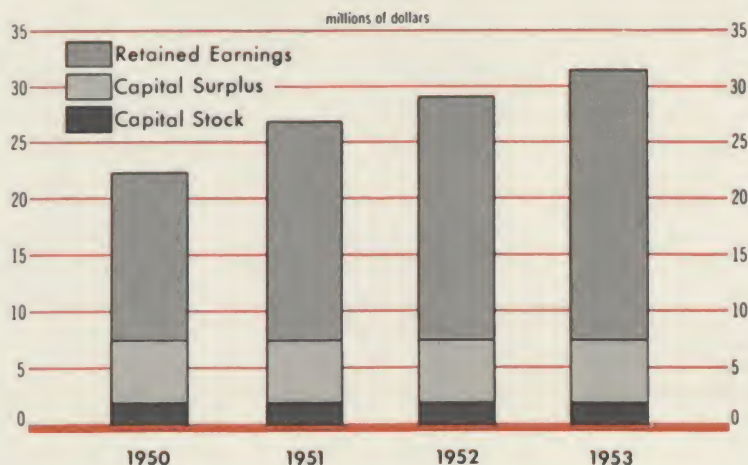
A study of the Pittsburgh market is now in process, to serve as a basis for the establishment of new bottling plants in this area in the near future.

Schweppes Products

As reported last year, Metropolitan Bottling Company, Inc., a wholly-owned subsidiary of the Company was franchised by Schweppes (Overseas), Ltd. to manufacture and distribute Schweppes products in the United States.

Schweppes Quinine Water was introduced in New York in the spring of 1953 and met with immediate public acceptance. It is now available through local Bottlers to consumers in Alexandria, Va., Boston, Mass., Chicago, Cincinnati, Dallas, Fairfield, Conn., Garden City, N. Y., metropolitan New York (including New

STOCKHOLDERS' EQUITY



Jersey), Miami, Milwaukee, New Haven, Conn., New Orleans, New Rochelle, Philadelphia, Pittsburgh, Pa., Phoenix, Santa Ana, Calif., and Toledo. It will become available in additional localities through the year.

Schweppes Club Soda, internationally known as "The Soda That Makes Hosts Famous," is now being bottled and distributed by our New York and Philadelphia plants.

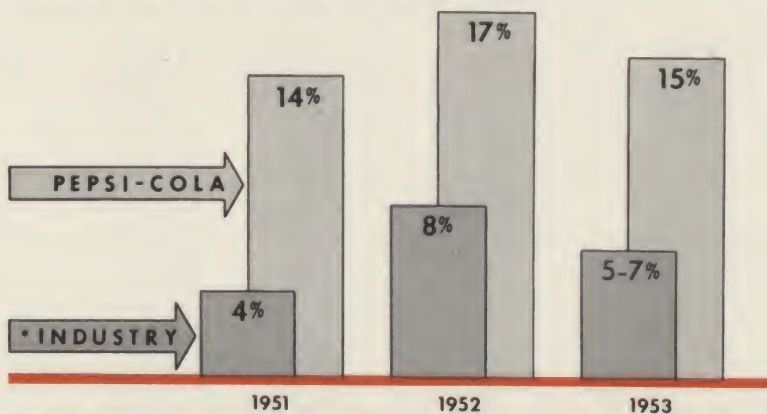
National distribution of Schweppes products is dependent on the addition of necessary new machinery and other facilities for Bottlers across the country. We ask the indulgence of our Stockholders in those areas where Schweppes may not now be available. It is our intention to develop the market for these superior mixers and beverages as rapidly as warranted.

"On Premise" Sales

Many bottlers in the last three years have established vending machine outlets in localities where people gather together in large numbers. These vending machines have proved to be a profitable operation. During 1953 our Bottlers were at times unable to obtain as many vending machines as they wished to purchase.

PEPSI-COLA VS. INDUSTRY

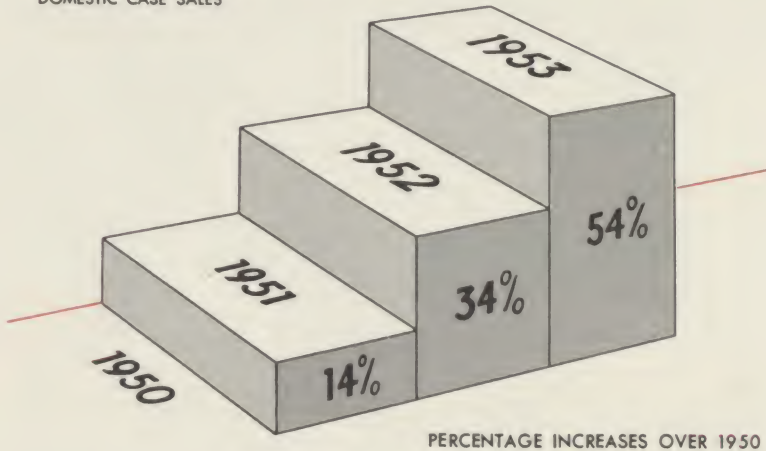
DOMESTIC CASE SALES INCREASES OVER PRIOR YEAR



*SOURCE: AMERICAN BOTTLERS OF CARBONATED BEVERAGES

PEPSI-COLA SALES GAINS

DOMESTIC CASE SALES



PERCENTAGE INCREASES OVER 1950

The Company's Equipment Department has developed in co-operation with suppliers new types of vending machines to be introduced in the current year.

The Company's national accounts organization has obtained expanded distribution in military installations, industrial plants and offices, drug and variety chain stores, theatres, grocery stores, fairs and carnivals, and travel centers.

In addition to increasing our volume of bottle and syrup sales, penetration of these markets has made Pepsi-Cola available to many persons who previously had never sampled our product.

Advertising

In 1953 the advertising of Pepsi-Cola Company was concentrated on upgrading the product and gaining new prestige for it with the public.

This policy won wide approval from the Bottlers, who during the past year spent unprecedented amounts of their own advertising and promotional money to bring Pepsi-Cola before the public eye, with highly satisfactory results in sales and profits for themselves and for your Company.

— DEVELOPMENT OUTSIDE THE UNITED STATES —

Pepsi-Cola has international acceptance. The 206 Pepsi-Cola bottling plants that were in operation in 50 countries outside the Continental United States at the end of 1953 sold more Pepsi-Cola than in any previous year, and increased sales 26 per cent over 1952. Your product is now available to approximately 192 million people abroad, or a gain of 20 million potential customers in our total Export market during the last year.

In 1953 the Company added 15 new Pepsi-Cola operations abroad; in Anglo-Egyptian Sudan, Bahrain, Belgian Congo, Brazil, Canada, England, Germany (2), Guam, Kenya Colony, Mexico (3), Thailand and Venezuela. The success of Pepsi-Cola abroad is due to the high quality of our product and to the skilled staff that your Company maintains throughout the world, men who bring to this operation a vast reservoir of experience in merchandising a soft drink beverage. In opening important new markets abroad Pepsi-Cola is proving that American quality products can achieve large sales volume. Highest standards of quality are maintained and the hundreds of thousands of Americans who travel abroad during 1954 may be sure that the Pepsi-Cola that they drink is of the same quality and purity as they find in the United States.

It is expected that 17 new Pepsi-Cola bottling plants will be opened outside the United States during 1954.

Far East

Potentially the greatest foreign market for our product is the Far East, a substantial portion of which is dollar-earning territory. In 1953 our sales increased approximately 148 per cent over 1952; and a further increase of some 50 per cent is expected in 1954.

Pepsi-Cola International, Ltd.

So important in your Company's affairs have our international operations become that your Board of Directors has now deemed it advisable from an operational point-of-view to organize a wholly-owned subsidiary. For that purpose we have recently formed "Pepsi-Cola International, Ltd.," which will take over your Company's entire export operation outside of North America.

Canada

Your Company has operated in Canada, our friendly neighbor to the North, since 1934. There are 97 Pepsi-Cola bottlers in that country. Our Canadian subsidiary earned \$577,402 *before* taxes in 1953. Taxes amounted to \$228,350. Earnings *after* taxes were \$349,052. (See Notes to Financial Statements, page 19.)

Frank W. McIntosh was elected President and Managing Director of Pepsi-Cola Company of Canada Limited with headquarters in Montreal. He succeeds David M. Chenoweth, resigned, who will continue to serve on the Canadian Company's Board of Directors.

EXECUTIVE APPOINTMENTS

William B. Forsythe

William B. Forsythe was elected Chairman of the Board of Directors and President of Pepsi-Cola International, Ltd. Mr. Forsythe, affiliated with your Company since 1939, will continue to serve as First Vice President, Director and member of the Executive Committee of Pepsi-Cola Company.

Herbert L. Barnet

Herbert L. Barnet was elected Executive Vice President of Pepsi-Cola Company in February 1954. Mr. Barnet, a member of the Board of Directors, has been Vice President in Charge of Domestic Operations of the Company since March 1950, prior to which he was Vice President in Charge of National Sales.

Richard H. Burgess

Richard H. Burgess was promoted to Vice President in Charge of Domestic Sales of Pepsi-Cola Company in February 1954. Mr. Burgess has been Vice President in Charge of Bottle Sales since March 1950.

James B. Somerall

James B. Somerall was elected Vice President of Pepsi-Cola Company in the Bottle Sales Division and also Vice President of Metropolitan Bottling Company, Inc. in August of 1953.

Mr. Somerall is in charge of Schweppes sales operations for the United States.

Henry M. Winter

Henry M. Winter, who joined Pepsi-Cola Company in 1941, was elected Vice President in Charge of Commercial Operations of Pepsi-Cola International, Ltd., of which Company he is also a Director.

Walter M. Furlow

Walter M. Furlow, who joined Pepsi-Cola Company in 1939, was elected Vice President in Charge of New Market Developments of Pepsi-Cola International, Ltd., of which he is also a Director.

William L. Moran, Jr.

William L. Moran, Jr., who joined Pepsi-Cola in 1945, was appointed Manager of Sales Operations of Pepsi-Cola International, Ltd., and was elected a member of its Board of Directors.

Metropolitan Bottling Company, Inc.

James G. Knight

To keep pace with the rapid development of Company-owned plants, James G. Knight has been elected Executive Vice President in Charge of Sales and Advertising of Metropolitan Bottling Company, Inc., a wholly-owned subsidiary which operates all domestic Company-owned bottling plants. Mr. Knight was formerly Vice President of Metropolitan Bottling Company, Inc. and General Manager of its Philadelphia plant.

Daniel Vicellio

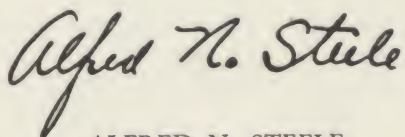
Daniel Vicellio was elected Comptroller of Metropolitan Bottling Company, Inc. in November 1953. He is also a Vice President of that Company. Mr. Vicellio joined Pepsi-Cola Company in 1952.

Henry Dirksen

Henry Dirksen was elected Vice President in Charge of Production of Metropolitan Bottling Company, Inc. in November 1953, in another promotion from within the organization. Mr. Dirksen joined Pepsi-Cola Company in 1952.

ON behalf of the Board of Directors I wish to thank our Bottlers, our loyal staff of Employees throughout the world and our Stockholders for their interest, cooperation and support throughout 1953. With their continued cooperation I believe the outlook for 1954 is favorable.

Respectfully submitted,
By Order of the Board of Directors

A handwritten signature in dark ink, reading "Alfred N. Steele". The script is fluid and cursive, with the first letters of each word being capitalized and prominent.

ALFRED N. STEELE
President

March 29, 1954

Notice of Annual Meeting

A proxy is enclosed with this Annual Report for 1953. The Annual Meeting will be held on May 5, 1954, in Wilmington, Delaware. We sincerely hope that you can attend, but if this is not possible please sign and mail the enclosed proxy.



Pepsi-Cola Company

CONSOLIDATED BALANCE SHEET

	DECEMBER 31	
ASSETS	1953	1952
CURRENT ASSETS:		
Cash	\$11,238,811	\$ 9,594,722
United States and Canadian Government obligations (market valuation—1953, \$10,706,000)	10,684,431	6,188,743
Notes and accounts receivable (less allowance for doubtful receivables—1953, \$149,008; 1952, \$111,868)	2,908,744	2,340,433
Inventories:		
Finished, in-process, raw materials, and supplies	4,441,366	4,081,293
Vending equipment held for resale	577,055	1,254,479
Total current assets	<u>\$29,850,407</u>	<u>\$23,459,670</u>
MISCELLANEOUS ASSETS:		
Notes and accounts receivable—not current	\$ 716,949	\$ 644,156
Bottling machinery, etc. held for resale	158,443	340,172
Investment in, and advances to, subsidiaries not consolidated	520,564	506,213
Cost of capital stock of the Company acquired for an officer (8,500 shares to be paid for by December 31, 1956)	91,095	91,095
Other	466,506	679,537
Total miscellaneous assets	<u>\$ 1,953,557</u>	<u>\$ 2,261,173</u>
PROPERTY, PLANT, AND EQUIPMENT:		
Land, buildings, equipment, leasehold improvements, etc.—at cost (less depreciation and amortization— 1953, \$8,170,800; 1952, \$6,861,781)	\$10,854,550	\$10,498,294
Bottles and cases on hand and with trade (at estimated depreciated values)	3,904,180	3,482,212
Total property, plant, and equipment—net.	<u>\$14,758,730</u>	<u>\$13,980,506</u>
DEFERRED DEBIT ITEMS:		
Prepaid insurance, taxes, etc.	\$ 407,310	\$ 301,676
Advertising materials and expenses	1,533,658	1,063,392
Other	69,091	94,204
Total deferred debit items	<u>\$ 2,010,059</u>	<u>\$ 1,459,272</u>
TRADEMARKS, FORMULAS, AND GOODWILL	<u>\$ 1</u>	<u>\$ 1</u>
Total	<u>\$48,572,754</u>	<u>\$41,160,622</u>

Reference is made to the accompanying Notes to Financial Statements starting at page 19.

DECEMBER 31, 1953 AND 1952

LIABILITIES	DECEMBER 31	
	1953	1952
CURRENT LIABILITIES:		
Notes payable (including current installments on long-term obligations)	\$ 399,300	\$ 399,300
Accounts payable and accrued	3,279,286	2,144,449
Dividend payable	1,435,876	
Accrued taxes—estimated:		
United States and foreign taxes on income.	5,762,504	3,824,014
Other taxes	977,452	681,135
Total current liabilities (exclusive of customers' deposits on bottles and cases, shown below)	\$11,854,418	\$ 7,048,898
OTHER LIABILITIES:		
Note payable to insurance company, 3%, due June 1, 1963, payable \$333,000 annually (current installment included above)	\$ 2,998,000	\$ 3,331,000
Other notes, and mortgages assumed	182,950	249,250
Customers' deposits on bottles and cases	1,930,330	1,529,548
Total other liabilities	\$ 5,111,280	\$ 5,109,798
CAPITAL STOCK AND SURPLUS:		
Capital stock—authorized, 7,500,000 shares of 33⅓¢ each; issued and outstanding, 5,752,659 shares (including 654 shares in treasury—see below)	\$ 1,917,553	\$ 1,917,553
Capital surplus	5,535,125	5,535,125
Earned surplus	24,165,086	21,559,956
Total	\$31,617,764	\$29,012,634
Less treasury stock (654 shares, at cost)	10,708	10,708
Total capital stock and surplus	\$31,607,056	\$29,001,926
Total	\$48,572,754	\$41,160,622

Reference is made to the accompanying Notes to Financial Statements starting at page 19.

SUMMARY

Consolidated Income

for the years ended December 31, 1953 and 1952

	YEAR ENDED DECEMBER 31	
	1953	1952
GROSS PROFIT ON SALES	\$45,419,752	\$35,002,415
ADVERTISING, SELLING, SHIPPING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>34,278,112</u>	<u>27,232,800</u>
PROFIT FROM OPERATIONS	\$11,141,640	\$ 7,769,615
OTHER INCOME	<u>483,039</u>	<u>400,698</u>
GROSS INCOME	\$11,624,679	\$ 8,170,313
INCOME CHARGES	<u>240,267</u>	<u>336,187</u>
INCOME BEFORE DEDUCTING PROVISIONS FOR UNITED STATES AND FOREIGN INCOME TAXES	<u>\$11,384,412</u>	<u>\$ 7,834,126</u>
PROVISIONS FOR UNITED STATES AND FOREIGN INCOME TAXES—Estimated:		
United States	\$ 4,480,000	\$ 2,625,000
Foreign	<u>1,427,530</u>	<u>1,328,764</u>
Total	<u>\$ 5,907,530</u>	<u>\$ 3,953,764</u>
NET INCOME	\$ 5,476,882	\$ 3,880,362

Consolidated Earned Surplus

for the year ended December 31, 1953

EARNED SURPLUS, JANUARY 1, 1953	\$21,559,956
NET INCOME FOR THE YEAR	<u>5,476,882</u>
Total	\$27,036,838
DIVIDENDS (50¢ a share)	<u>2,871,752</u>
EARNED SURPLUS, DECEMBER 31, 1953	\$24,165,086

Reference is made to the accompanying Notes to Financial Statements starting at page 19.

Notes to Financial Statements

December 31, 1953

1. The inventories are stated at cost, certain inventories being at average cost and the others being on the basis of first-in, first-out. Such costs were not in excess of market.
2. The current assets and liabilities, total assets and liabilities, earned surplus, and net income derived from foreign subsidiaries (after deducting United States and foreign taxes of parent company on income transferred from subsidiaries), which are included in the 1953 consolidated financial statements, are as follows:

	Canadian subsidiary	Cuban subsidiary	Mexican subsidiaries	French subsidiary	Brazilian subsidiary
Current assets . . .	\$1,665,678	\$ 307,568	\$1,562,672	\$274,400	\$ 89,646
Current liabilities . . .	199,064	85,594	432,834	74,633	17,886
Total assets	3,198,904	1,551,047	1,964,201	429,019	118,344
Total liabilities	348,629	176,670	432,834	74,633	17,886
Earned surplus (deficit)	577,386	(571,779)	1,210,011	87,786	29,055
Net income (loss)					
for year	349,052	(76,745)	1,287,326	155,326	30,566

The assets and liabilities of these subsidiaries have been converted into United States dollars at current rates of exchange; income and expenses have been converted at rates prevailing during the year.

Provisions for taxes related to the transfer of funds to the United States are made only at the time of such transfers.

3. Because of continuing stringent foreign exchange restrictions, the accounts of the British subsidiary (and its subsidiaries) are excluded from the consolidated financial statements. The current assets and liabilities and total assets and liabilities of these subsidiaries, and the parent company's equity, at December 31, 1953, and the subsidiaries' net loss for the year are as follows:

Current assets	\$ 934,326
Current liabilities	448,641
Total assets	1,815,377
Total liabilities	450,596
Parent company's equity in net assets	1,364,781
Net loss for year	2,048

4. The Federal income and excess profits tax returns of the Company and domestic subsidiaries have been examined and settled through the year 1947; the tax returns for the years 1948 to 1950, inclusive, are under examination.

Notes to Financial Statements, Continued

5. On May 7, 1952, the stockholders approved the adoption of a Stock Option Plan under which 200,000 shares of the Company's capital stock were made available for the granting of options to executives. At December 31, 1953, options had been granted for 90,000 shares at \$9.125 a share (market price on the date granted); for 64,000 shares at \$9.2625 a share (95% of market price on the date granted); and for 5,600 shares (reduced from original option of 8,000 shares) at \$9.75 a share (market price on the date granted). These options, none of which had been exercised at December 31, 1953, are exercisable in various amounts and at various times not later than August 27, 1957.
 6. The provisions of the note payable to the insurance company include certain restrictions on the payment of cash dividends on the capital stock of the Company. At December 31, 1953 approximately \$9,080,000 of earned surplus was free of such restrictions.
 7. At December 31, 1953 the Company and consolidated subsidiaries were contingently liable as guarantors of bank loans, principally to various franchised Bottlers, aggregating \$3,191,341.
 8. The provisions for depreciation and amortization charged to manufacturing and expense accounts amounted to \$1,818,658 in 1953, and \$1,801,121 in 1952.
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Accountants' Certificate

HASKINS & SELLS

Certified Public Accountants

67 Broad Street
New York 4

THE DIRECTORS AND STOCKHOLDERS
OF PEPSI-COLA COMPANY:

We have examined the balance sheet of Pepsi-Cola Company and consolidated subsidiaries as of December 31, 1953 and the related summaries of consolidated income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and the related summaries of consolidated income and earned surplus present fairly the financial position of the companies at December 31, 1953 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

March 19, 1954

Mombasa, Kenya



Leopoldville, Belgian Congo

TYPICAL
NEW PLANTS
outside
U. S.

Los Mochis, Mexico



Porto Alegre, Brazil



PEPSI-COLA COMPANY

Executive Offices:

3 West 57th Street,
New York, N. Y.

Regional Offices:

1401 Peachtree Building, Atlanta, Ga.

Suite 516, 100 East Ohio Street, Chicago, Ill.

4300 LeVeque Lincoln Tower Building,
50 West Broad Street, Columbus 15, Ohio

1004-5 Mercantile Securities Building, Dallas, Texas

781 Ursula Street, Denver 8, Colo.

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Address all Communications to:

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3 West 57th Street, New York, N. Y.